



Amy G. Rabinowitz
Assistant General Counsel

September 23, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. Docket 99-60, Investigation by the Department of Telecommunications and Energy on its own Motion into the Pricing and Procurement of Default Service Pursuant to G.L. c. 164, § 1B(d)

Dear Secretary Cottrell:

Massachusetts Electric Company and Nantucket Electric Company (collectively the "Companies") hereby submit the results of their most recent solicitation for Default Service and proposed retail rates for the Default Service pricing options resulting from the solicitation for the service period beginning November 1, 2005. I am also enclosing a motion for confidential treatment of the Companies' analysis of the Default Service bids, and am providing the confidential analysis directly to Hearing Officer Jeanne Voveris. For all customer groups, the proposed Default Service rates represent a significant increase from the respective Default Service rates currently in effect.

Attachment 1 contains the winning Default Service prices at the retail meter for the periods November 2005 through April 2006 for residential and commercial Default Service customers and November 2005 through January 2006 for industrial Default Service customers resulting from the winning bids. Attachment 2 contains the Companies' calculation of the Default Service rates for the six-month fixed price option for the residential and commercial customer groups, and the three-month fixed price option for the industrial customer group. A calculation of the monthly weighted-average Default Service rate for the variable price option for the residential and commercial customer groups is shown on pages 7 and 8. Because bids for these two groups were obtained by Zone, the Companies calculated a monthly weighted-average rate across the three Zones in order to arrive at one Default Service rate per month. These six monthly weighted-average Default Service rates then become the basis for the proposed rate for the fixed price option. This calculation is not necessary for the industrial customer group, whose Default Service rates are unique for each Zone. Attachment 3 includes the revised tariff supplement to the Companies' Tariff for Default Service¹, containing the proposed fixed and variable Default Service rates for the periods November 2005

¹ Both Companies' Tariff for Default Service is M.D.T.E. No. 1041.

through April 2006 for the residential and commercial customer groups and November 2005 through January 2006 for the industrial customer group. The Companies are proposing that these rates become effective for usage on and after November 1, 2005.

Results of Current Procurement

The proposed Default Service rates set forth in Attachment 3 represent an increase from the rates currently in effect. At the time the Companies issued the Request for Power Supply Proposals ("RFP") in August, wholesale energy prices had risen significantly from when the Companies last procured supply for the residential and commercial customer classes, in February of 2005. In those six months, NYMEX futures prices for natural gas increased, on average, twenty-five percent for the November 2005 through April 2006 period. As a result of the damage inflicted by Hurricane Katrina on the Gulf of Mexico natural gas and oil infrastructure, the NYMEX futures prices increased an additional twenty-five percent by the time indicative bids were due. Since, in general, wholesale electricity prices follow the cost of natural gas, it is not surprising that this procurement resulted in significant price increases over previous procurements.

Competitive Procurement Process

Pursuant to the Department's parameters for Default Service procurement, set forth in the several Department orders in dockets D.T.E. 99-60 and D.T.E. 02-40, the Companies issued a Request for Power Supply Proposal ("RFP") on August 18, 2005 to supply the Companies' Default Service needs. For the residential and commercial customer groups, this procurement covered fifty percent of the Companies' Default Service supply needs for the period November 2005 through April 2006, and fifty percent of the Companies' Default Service supply needs for the period May 2006 through October 2006. For the industrial customer group, this procurement covered the Companies' entire Default Service supply needs for the period November 2005 through January 2006. Bidders were required to provide Zone-specific bids for each of the three Zones in which the Companies provide Default Service.

This procurement is consistent with past procurements performed by the Companies. In establishing the Default Service procurement schedule, the Companies typically work backward from the date that service is to commence under the new supply contracts. For this solicitation, service is to begin on November 1, 2005. The Companies are required to provide customers with thirty days advance notice of the new rates that will be in effect when service under the new contract begins. (see D.T.E. 99-60-C at 7). Thus, for this solicitation, the Companies knew they would need new rates approved by the Department as of October 1, 2005. In order to provide the Department with the required five-business day review period within which to initiate an investigation of the proposed price that results from the solicitation, consistent with D.T.E. 99-60-C at 8-9, the Companies determined that they would need to file the results

of the solicitation no later than September 23, 2005.

Before the Companies can file the results of the solicitation, they must execute final contracts with their suppliers. Minimizing the period between supply commitments and the price effectiveness was designed to mitigate the risk that suppliers must bear and was expected to result in lower prices (see D.T.E. 99-60-C at 5, footnote 3). Thus, the Companies make final binding commitments as late as possible. To provide sufficient time to execute contracts and prepare the filing, the Companies typically ask that final binding bids be submitted approximately two weeks prior to the day that the filing must be made. In addition, due to the release of natural gas inventory levels on Thursday, the Companies do not request final bids on that day of the week. For this solicitation, final binding bids were due on September 14, 2005. Upon receipt and analysis of the final binding bids, the Companies made binding purchase commitments.

For this solicitation, the Companies requested prices by unique customer blocks based on the rate class of the customer (residential, commercial or industrial), the Zone in which the customers' loads are located (NEMA, WCMA or SEMA), and the period to be contracted (November 1, 2005 to January 31, 2006, November 1, 2005 to April 30, 2006 or May 1, 2006 to October 31, 2006). This resulted in fifteen unique customers groups. (see D.T.E. 02-40-A at 8-11 and 02-40-C at 22).

The Companies have consistently issued RFPs in February, May, August, and November for supply periods beginning in May, August, November, and February. The Companies established this schedule in 2000 and filed it with the Department in this docket on July 14, 2000, in response to the Department's directive that staggered solicitations by distribution companies will foster the development of the competitive market and will avoid the possibility that higher prices will result from simultaneous solicitations for load (see D.T.E. 99-60-B at 22). Quarterly solicitations for the industrial customer group began in August 2003 for service commencing November 1, 2003, as required by the Department in D.T.E. 02-40-C at 22.

Costs associated with the Renewable Portfolio Standards

Consistent with the Companies' Default Service rates currently in effect, the proposed Default Service rates contained in this filing include an estimate of the costs associated with the Companies' compliance with the Massachusetts Renewable Portfolio Standards ("RPS") that became effective on January 1, 2003. As set forth in the confidential analysis, the Companies are procuring RPS compliant certificates for the majority of their Default Service load as part of this Default Service solicitation. A portion of the Companies' Default Service procurement does not include the purchase of RPS compliance certificates because the RPS costs included by the suppliers were considered above market by the Companies. In the past, the Department has preferred to include in Default Service rates a level of RPS that was indicative of the market for RPS. Therefore, the Companies have included in their Default Service rates the value of RPS included in the winning bids for the entire Default Service load RPS obligation. The

Companies believe that the RPS procurement cost for a portion of its Default Service load is a reasonable proxy for the total Default Service load covered by this solicitation.

Capacity Market Costs

As a result of the August 10, 2005 order by the Federal Energy Regulatory Commission, the earliest date the Locational Installed Capacity ("LICAP") market is expected to be implemented is October 1, 2006. Because of the continued uncertainty in the LICAP market, the Companies requested proposals that excluded capacity market costs for October 2006. Instead, the Companies have agreed to reimburse the suppliers for their actual costs to satisfy the capacity obligation, subject to a market cap. The Companies will make a filing with the Department at the appropriate time proposing rates that include an estimate of the capacity market costs for October 2006. This is consistent with how the Companies handled LICAP in the last solicitation. The difference between actual costs incurred and estimated costs billed for LICAP will be reconciled through the Companies' Default Service reconciliation pursuant to the Default Service Adjustment Provision.

Reliability Must Run Operating Reserve Charges

The Companies have also agreed to a pass-through of the Reliability Must Run Operating Reserve Charges ("RMR Charges") for the NEMA Zone as billed by the winning suppliers to the Companies for the entire period of this solicitation. A number of suppliers expressed concern to the Companies about serving load in the NEMA Zone and their inability to adequately account for RMR Charges as a cost factor in their bids. The Companies have included in the proposed Default Service rates an estimate of the RMR Charges for the November 2005 through April 2006 period. This estimate is based on the final binding bids received. The difference between actual costs incurred and estimated costs billed for RMR Charges will be reconciled through the Companies' Default Service reconciliation pursuant to the Default Service Adjustment Provision.

Change of Law Provision

As noted above, this procurement covers fifty percent of the residential and commercial Default Service supply needs for the period November 2005 through October 2006. Due to uncertainty about legislation that could affect Default Service, one of the contracts under which a supplier agreed to provide Default Service supply includes a provision that, in general, requires the parties to adjust the suppliers' compensation if there is a change in the law that affects the suppliers' rights and obligations to provide supply for customers that otherwise would be Default Service customers but were not because of the change in law. I am attaching a redacted copy of this agreement as Attachment 4, and am providing unredacted copies directly to Hearing Officer Jeanne Voveris.

Mary L. Cottrell, Secretary

September 23, 2005

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Please do not hesitate to contact me if you have any questions. Thank you very much for your time and attention to this filing.

Very truly yours,

A handwritten signature in black ink, reading "Amy G. Rabinowitz". The signature is written in a cursive, flowing style.

Amy G. Rabinowitz

cc: Service List

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of)	
Telecommunications and Energy on its)	
own motion into the Pricing and)	D.T.E. 99-60
Procurement of Default Service)	
Pursuant to G.L. c. 164, §1B(d))	

**Motion of Massachusetts Electric Company and Nantucket Electric Company
For Confidential Treatment**

Pursuant to Mass. Gen. Laws c. 25, §5D, Massachusetts Electric Company and Nantucket Electric Company (collectively “Companies”) hereby move for confidential treatment of (1) the analysis of default service bids that the Companies received in response to their Request for Power Supply Proposal (“RFP”) requesting bids for the service period commencing November 1, 2005, and one supply contract that the Companies entered into for default service supply needs for the service period commencing November 1, 2005.

The analysis of default service bids and data contained in the rankings constitutes sensitive proprietary information. Protecting this information from public disclosure is in the public interest because disclosure would make public all of the competitive bids received in the RFP process. Although participants understood that the resulting rates would be tied to the Companies’ supply contract prices, the disclosure of all of the competing bids could have adverse competitive effects on future bids for default service, not only for the Companies, but also for other utilities in the state that will need to seek bids for default service.

Similarly, the exact terms under which the Companies agreed to purchase default service supply needs for the period commencing May 1, 2005 are sensitive proprietary information. The disclosure of the supply contract could have adverse competitive effects on future bids and contracts for default service, not only for the Companies, but also for other utilities in the state that will need to seek bids and enter into contracts for default service. The Companies are providing a redacted, non-confidential version of the supply contract to the Department in their September 23, 2005 filing in this docket.

Respectfully submitted,
MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
By their attorney,



Amy G. Rabinowitz
25 Research Drive
Westboro, MA 01582

Dated: September 23, 2005

CERTIFICATE OF SERVICE

I hereby certify that on September 23, 2005, I served a copy of the Motion of Massachusetts Electric Company and Nantucket Electric Company for Confidential Treatment on the Service List in D.T.E. 99-60 by personal delivery or first class mail.

Signed under the pains and penalties of perjury



Amy G. Rabinowitz
Attorney for Massachusetts Electric Company and
Nantucket Electric Company

Dated: September 23, 2005